

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

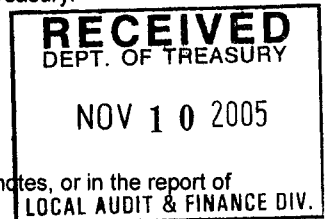
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Fennville</b>	County <b>Allegan</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/14/05</b>	Date Accountant Report Submitted to State: <b>11/9/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Kiekoover, Scholma &amp; Shumaker, PC</b>			
Street Address <b>205 East Main Street</b>	City <b>Zeeland</b>	State <b>MI</b>	ZIP <b>49464</b>
Accountant Signature <i>Kiekoover, Scholma &amp; Shumaker, PC</i>		Date <b>11/9/05</b>	

CITY OF FENNVILLE  
ALLEGAN COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2005

KIEKOVER, SCHOLMA & SHUMAKER, PC  
Certified Public Accountants  
Zeeland, Michigan

City of Fennville, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2005

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City of Fennville, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2005

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**INDEPENDENT AUDITOR'S REPORT**

October 14, 2005

Honorable Mayor and  
Members of City Council  
City of Fennville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Fennville, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fennville, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fennville, Michigan, as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages II through VI and 21 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Kiekover, Scholma & Shumaker, PC*

City of Fennville, Michigan

**Management's Discussion and Analysis**

As management of City of Fennville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the City's financial statements that follow this section.

**Financial Highlights**

- The assets of City of Fennville exceeded its liabilities at the close of the most recent fiscal year by \$3,822,669 (*net assets*). Of this amount, \$1,439,550 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$149,289. Of this increase \$70,052 is attributable to the increase in net assets of the City's governmental activities while \$79,237 is attributable to the City's business-type (water and sewage disposal systems) activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$761,350, an increase of \$93,481 in comparison with the prior year. Approximately 47% of this total amount, \$361,639, is *available for spending* at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$291,253 or 68.2% of total general fund expenditures and transfers out.
- The City currently has no long-term debt obligations.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to City of Fennville's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of City of Fennville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, economic development, and recreation and culture. The business-type activities of the City consist of water and sewage disposal systems.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fennville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Fennville maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and the Local Street Fund, which are considered to be major funds, and for the other governmental fund, which is considered to be a non-major fund.

The City adopts annual appropriated budgets for its General Fund, Major Street Fund, and Local Street Fund. Budgetary comparison statements have been provided for the General Fund, Major Street Fund, and Local Street Fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 3-5 of this report.

**Proprietary funds.** The City of Fennville maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewage disposal systems. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Fennville uses an internal service fund to account for equipment and vehicles. Because it predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail and information, such as cash flows. The proprietary fund financial statement provides information for the water and sewage disposal systems, which is considered to be a major fund of the City of Fennville.

The basic proprietary fund financial statement can be found on pages 6-8 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government in which the City acts solely as trustee or agent. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support City of Fennville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 9 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-20 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the City's General Fund, Major Street Fund, and Local Street Fund, found on pages 21-24 of this report.

### Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fennville, assets exceeded liabilities by \$3.83 million at the close of the fiscal year ended June 30, 2005.

The largest portion of the City's net assets (52%) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City totaled \$399,711 and are reported in the governmental activities. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or grantor restrictions. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, and cemetery perpetual care. The remaining unrestricted net assets (\$1,439,550) may be used to meet the City's ongoing operations.

The following table shows, in a condensed format, the net assets of the City of Fennville as of June 30, 2005 and 2004.

**Table 1 - City of Fennville's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,113,301	\$ 915,828	\$ 885,413	\$ 983,977	\$ 1,998,714	\$ 1,899,805
Capital assets	478,156	540,963	1,505,252	1,421,566	1,983,408	1,962,529
Total assets	1,591,457	1,456,791	2,390,665	2,405,543	3,982,122	3,862,334
Other liabilities	130,409	65,795	29,044	123,159	159,453	188,954
Net assets:						
Invested in capital assets, net of related debt	478,156	540,963	1,505,252	1,421,566	1,983,408	1,962,529
Restricted	399,711	337,718	-	-	399,711	337,718
Unrestricted	583,181	512,315	856,369	860,818	1,439,550	1,373,133
	\$ 1,461,048	\$ 1,390,996	\$ 2,361,621	\$ 2,282,384	\$ 3,822,669	\$ 3,673,380

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$929,000 for the current year, of which 26.5% was obtained from property taxes. Fees charged for services accounted for another 34.2% of the total, State shared revenues 16.5%, and operating grants another 13.7%. The balance of the City's revenues was primarily derived from interest earnings and other sources. The total cost of all programs and services at June 30, 2005 was approximately \$782,000. City expenses cover a wide range of services. For the current fiscal year, about 32.6% of the City's expenses related to general government services, 18.2% related to public safety, 14.6% related to public works and 30.5% related to the provision of water and sewage disposal services.

Net assets increased by \$70,052 for the City's governmental activities. This increase accounted for 46.9% of the total growth in net assets for the fiscal year. Net assets for business-type activities increased by \$79,237 during the year, accounting for the remaining 53.1% increase.

The following analysis highlights the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

**Table 2 - City of Fennville's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program revenues						
Charges for services	\$ 30,480	\$ 31,982	\$ 287,540	\$ 282,484	\$ 318,020	\$ 314,466
Operating grants and contributions	127,397	134,708	-	-	127,397	134,708
General revenues						
Property taxes	246,008	252,436	-	-	246,008	252,436
State shared revenues	153,177	154,865	-	-	153,177	154,865
Interest	19,701	14,142	30,250	20,059	49,951	34,201
Gain on sale of capital assets	21,461	223	-	-	21,461	223
Other	13,102	6,170	-	-	13,102	6,170
Total revenues	<u>611,326</u>	<u>594,526</u>	<u>317,790</u>	<u>302,543</u>	<u>929,116</u>	<u>897,069</u>
Program expenses						
General government	255,345	269,564	-	-	255,345	269,564
Public safety	142,706	182,596	-	-	142,706	182,596
Public works	114,288	90,547	-	-	114,288	90,547
Community and economic development	2,692	1,656	-	-	2,692	1,656
Recreation and culture	28,843	33,165	-	-	28,843	33,165
Water and sewage disposal	-	-	238,553	228,958	238,553	228,958
Total expenses	<u>543,874</u>	<u>577,528</u>	<u>238,553</u>	<u>228,958</u>	<u>782,427</u>	<u>806,486</u>
Change before contributions	67,452	16,998	79,237	73,585	146,689	90,583
Contributions to permanent funds	<u>2,600</u>	<u>2,600</u>	<u>-</u>	<u>-</u>	<u>2,600</u>	<u>2,600</u>
Change in Net Assets	<u>\$ 70,052</u>	<u>\$ 19,598</u>	<u>\$ 79,237</u>	<u>\$ 73,585</u>	<u>\$ 149,289</u>	<u>\$ 93,183</u>

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$761,350, an increase of \$93,481 from the prior year. Approximately 47% of this amount (\$361,639) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for the maintenance of the City of Fennville's cemetery (\$151,501 non-expendable) and major and local streets (\$248,210).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year fund balance of the General Fund was \$291,253, all of which is unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance (\$291,253) represents 68% of total General Fund expenditures and transfers out (\$427,233).

The fund balance of the City's General Fund increased by \$31,488 during the current fiscal year. Total revenue sources decreased by \$4,311 or .9%. Property taxes decreased by \$6,428 or 2.5%. State shared revenues decreased by \$7,446 or 4.6%. General Fund expenditures decreased by \$95,269 or 18.2%. Expenditures for general government functions decreased in fiscal 2005 by \$49,638 or 20.1%. The most significant was a decrease in City Hall and Grounds expenditures of \$49,638 or 20.1%. This decrease was due mostly to a reduction in capital outlay expenditures of \$26,262 and equipment rental charges of \$11,000. Public safety expenditures decreased by \$41,648 or 23.5% due mainly to a decrease in police patrol services of \$70,278 while fire services increased by \$25,216.

The Major Street Fund has a total fund balance of \$235,596, an increase of \$49,004 during the year. Total revenues decreased by \$6,457 due mainly to a decrease in State shared revenues of \$6,827. Major Street Fund expenditures decreased by \$12,092 compared to the prior year due mainly to a decrease in street construction expenditures.

The Local Street Fund has a total fund balance of \$83,000, an increase of \$10,389 during the year. Total revenue decreased by \$157. Expenditures decreased by \$359 from the prior year. General maintenance costs increased by \$8,399 while construction costs decreased by \$8,950.

**Proprietary Funds** – City of Fennville's proprietary funds provide the same type of information found in the government-wide financial statements (business-type activities) but in more detail. The City's proprietary funds are comprised of the Water and Sewage Disposal Systems Fund.

Unrestricted net assets of the Water and Sewage Disposal Systems Fund was \$856,369 at June 30, 2005, a decrease of \$4,449 from the prior year. Combined operating revenues for the water and sewage disposal systems fund increased in fiscal 2005 by \$5,056 from \$282,484 to \$287,540. Combined operating expenses, excluding depreciation, for these funds, decreased in fiscal 2005 by \$1,307 from \$173,893 to \$172,586.

#### **General Fund Budgetary Highlights**

Over the course of the year, the City Council amended the budget to take into account events during the year. The most significant change was to increase the estimated expenditures for city hall and grounds by \$9,492 and for employee insurances by \$12,778. City operational departments stayed below budget overall, resulting in total expenditures \$30,019 below the final budget.

#### **Capital Asset and Debt Administration**

At the end of fiscal 2005, the City had \$1,983,408 (net of depreciation) invested in a broad range of capital assets, including buildings, park land and improvements, sidewalks, road improvements, drains, and water and sewer lines.

Additional information on the City's capital assets can be found in note 3C on pages 17-18 of this report.

At June 30, 2004, the City had no long-term debt.

#### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for 2005-06 calls for a slight decrease in the overall property tax rate from 12.9232 mills to 12.6699 mills. This can be accomplished because of the stable tax base and budgeted expenditures at essentially static levels compared to 2004-05. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

#### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City.

Basic  
Financial Statements

City of Fennville, Michigan  
STATEMENT OF NET ASSETS  
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Downtown Development Authority
ASSETS				
Cash and investments	\$ 1,047,236	\$ 813,897	\$ 1,861,133	\$ 115,137
Receivables:				
Accounts	-	71,516	71,516	-
Due from other governments	66,065	-	66,065	-
Capital assets	<u>478,156</u>	<u>1,505,252</u>	<u>1,983,408</u>	<u>164,867</u>
Total Assets	<u>1,591,457</u>	<u>2,390,665</u>	<u>3,982,122</u>	<u>280,004</u>
LIABILITIES				
Accounts payable	37,555	18,694	56,249	2,205
Customer deposits	575	10,350	10,925	-
Due to other governments	89,737	-	89,737	-
Deferred revenue	<u>2,542</u>	<u>-</u>	<u>2,542</u>	<u>-</u>
Total Liabilities	<u>130,409</u>	<u>29,044</u>	<u>159,453</u>	<u>2,205</u>
NET ASSETS				
Invested in capital assets, net of related debt	478,156	1,505,252	1,983,408	164,867
Restricted:				
Perpetual care - nonexpendable	151,501	-	151,501	-
Major and local streets	248,210	-	248,210	-
Unrestricted	<u>583,181</u>	<u>856,369</u>	<u>1,439,550</u>	<u>112,932</u>
Total Net assets	<u>\$ 1,461,048</u>	<u>\$ 2,361,621</u>	<u>\$ 3,822,669</u>	<u>\$ 277,799</u>

City of Fennville, Michigan  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

Function/Programs:	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Unit Downtown Development Authority
				Capital Grants and Contributions	Governmental Activities	
Primary Government:						
Governmental Activities:						
General government	\$ 255,345	\$ 30,480	\$ -	\$ -	\$ (224,865)	\$ -
Public safety	142,706	-	-	-	(142,706)	-
Public works	114,288	-	127,397	-	13,109	-
Community and economic development	2,692	-	-	-	(2,692)	-
Recreation and culture	28,843	-	-	-	(28,843)	-
Total Governmental Activities	543,874	30,480	127,397	-	(385,997)	-
Business-type activities:						
Water and Sewage Disposal	238,553	287,540	-	-	48,987	-
Total Primary Government	\$ 782,427	\$ 318,020	\$ 127,397	\$ -	(385,997)	-
Component Units:						
Downtown Development Authority	\$ 62,841	\$ 7,800	\$ -	\$ -	48,987	(55,041)
General revenues:						
Property taxes					246,008	54,937
State shared revenues					153,177	-
Interest					19,701	-
Gain on sale of capital assets					30,250	-
Other					21,461	-
Contributions to permanent fund					13,102	-
					2,600	-
Total General Revenues					456,049	54,937
Change in Net Assets					79,237	(104)
Net Assets - Beginning					1,390,996	277,903
Net Assets - Ending					\$ 1,461,048	\$ 277,799

City of Fennville, Michigan  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Permanent Fund Cemetery Perpetual Care	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 390,815	\$ 222,488	\$ 88,700	\$ 151,501	\$ 853,504
Due from other governments	<u>19,787</u>	<u>13,398</u>	<u>3,787</u>	<u>-</u>	<u>36,972</u>
Total Assets	<u>\$ 410,602</u>	<u>\$ 235,886</u>	<u>\$ 92,487</u>	<u>\$ 151,501</u>	<u>\$ 890,476</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 26,495	\$ 290	\$ 9,487	\$ -	\$ 36,272
Due to other governments	89,737	-	-	-	89,737
Deferred revenue	2,542	-	-	-	2,542
Customer deposits	<u>575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>575</u>
Total Liabilities	<u>119,349</u>	<u>290</u>	<u>9,487</u>	<u>-</u>	<u>129,126</u>
<b>FUND BALANCES</b>					
Reserved:					
Perpetual care-nonexpendable	-	-	-	151,501	151,501
Major and local streets	-	205,182	43,028	-	248,210
Unreserved-reported in:					
General Fund	291,253	-	-	-	291,253
Special Revenue Funds	<u>-</u>	<u>30,414</u>	<u>39,972</u>	<u>-</u>	<u>70,386</u>
Total Fund Balances	<u>291,253</u>	<u>235,596</u>	<u>83,000</u>	<u>151,501</u>	<u>761,350</u>
Total Liabilities and Fund Balances	<u>\$ 410,602</u>	<u>\$ 235,886</u>	<u>\$ 92,487</u>	<u>\$ 151,501</u>	
Amount reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
General capital assets					399,384
Infrastructure assets					21,922
State shared revenues (sales taxes) collected and held by the State at year end are not considered available to pay for current year expenditures					
					29,093
Internal Service Funds are included as part of governmental activities					
					<u>249,299</u>
Net Assets of Governmental Activities					<u>\$ 1,461,048</u>

City of Fennville, Michigan  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Permanent Fund Cemetery Perpetual Care	Total Governmental Funds
Revenues:					
Taxes	\$ 246,008	\$ -	\$ -	\$ -	\$ 246,008
Licenses and permits	4,128	-	-	-	4,128
State shared revenues	152,903	81,901	23,888	-	258,692
Local unit contributions	-	-	21,608	-	21,608
Charges for services	22,156	-	-	2,600	24,756
Fines and forfeitures	456	-	-	-	456
Interest and rent	17,668	1,869	783	2,300	22,620
Other	13,102	-	-	-	13,102
Total Revenues	<u>456,421</u>	<u>83,770</u>	<u>46,279</u>	<u>4,900</u>	<u>591,370</u>
Expenditures:					
Current:					
General government	197,282	-	-	-	197,282
Public safety	135,311	-	-	-	135,311
Public works	28,060	31,272	33,510	-	92,842
Community and economic development	2,692	-	-	-	2,692
Recreation and culture	17,887	-	-	-	17,887
Insurance, bonds, and fringes	46,001	3,494	2,380	-	51,875
Total Expenditures	<u>427,233</u>	<u>34,766</u>	<u>35,890</u>	<u>-</u>	<u>497,889</u>
Excess of Revenues					
Over (Under) Expenditures	<u>29,188</u>	<u>49,004</u>	<u>10,389</u>	<u>4,900</u>	<u>93,481</u>
Other Financing Sources (Uses):					
Operating transfers in	2,300	-	-	-	2,300
Operating transfers out	-	-	-	(2,300)	(2,300)
Total Other Financing Sources (Uses)	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>(2,300)</u>	<u>-</u>
Net Change in Fund Balances	31,488	49,004	10,389	2,600	93,481
Fund Balances - July 1	<u>259,765</u>	<u>186,592</u>	<u>72,611</u>	<u>148,901</u>	<u>667,869</u>
Fund Balances - June 30	<u>\$ 291,253</u>	<u>\$ 235,596</u>	<u>\$ 83,000</u>	<u>\$ 151,501</u>	<u>\$ 761,350</u>

City of Fennville, Michigan  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

Net change in fund balances-Total Governmental Funds	\$ 93,481
Amounts reported for the governmental activities in the statement of activities are different because:	
Govenmental funds report capital outlays as expenditures; in the statement of activites these costs are allocated over their estimated useful lives as depreciation:	
Current year capital outlays capitalized - general capital assets	-
Current year capital outlays capitalized - infrastructure capital assets	-
Current year depreciation expense on capitalized assets	(24,971)
Timing of revenue recognition differs in the statement of activities versus the funds financial statements for certain revenues that do not provide current financial resources	
State shared revenues	274
Internal service funds are used by management to charge the costs of certain activities, such as equipment rental, to individual funds. The net revenue (expenses) of internal service funds is reported with governmental activities	
	<u>1,268</u>
Change in net assets of governmental activities	<u>\$ 70,052</u>

City of Fennville, Michigan  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	Enterprise Fund <u>Water and Sewage Disposal System</u>	Internal Service Fund <u>Revolving Equipment Fund</u>
ASSETS		
Current Assets:		
Cash and investments	\$ 813,897	\$ 193,732
Receivables:		
Accounts	<u>71,516</u>	<u>-</u>
Total Current Assets	885,413	193,732
Noncurrent Assets:		
Capital assets	<u>1,505,252</u>	<u>56,850</u>
Total Assets	<u>2,390,665</u>	<u>250,582</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	18,694	1,283
Customer deposits	<u>10,350</u>	<u>-</u>
Total Current Liabilities	29,044	1,283
Total Liabilities	<u>29,044</u>	<u>1,283</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,505,252	56,850
Unrestricted	<u>856,369</u>	<u>192,449</u>
Total Net Assets	<u>\$ 2,361,621</u>	<u>\$ 249,299</u>

City of Fennville, Michigan  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Enterprise Fund	Internal Service Fund
	Water and Sewage Disposal System	Revolving Equipment Fund
Operating Revenues		
Water sales	\$ 166,906	\$ -
Sewage disposal charges	112,236	-
Charges for services	<u>8,398</u>	<u>84,639</u>
Total Operating Revenues	<u>287,540</u>	<u>84,639</u>
Operating Expenses		
Water production and purchases	63,492	-
Waste treatment	39,362	-
Supplies and other operating expenses	-	51,275
General and administrative	47,122	-
Insurance, bonds, and fringes	22,610	3,127
Depreciation	<u>65,967</u>	<u>51,251</u>
Total Operating Expenses	<u>238,553</u>	<u>105,653</u>
Operating Income	<u>48,987</u>	<u>(21,014)</u>
Nonoperating Revenues		
Interest income	30,250	821
Gain on sale of capital assets	<u>-</u>	<u>21,461</u>
Total Nonoperating Revenues	<u>30,250</u>	<u>22,282</u>
Change in Net Assets	79,237	1,268
Net Assets - January 1	<u>2,282,384</u>	<u>248,031</u>
Net Assets - December 31	<u>\$ 2,361,621</u>	<u>\$ 249,299</u>

See Notes to Financial Statements

City of Fennville, Michigan  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Enterprise Fund <u>Water and Sewage Disposal System</u>	Internal Service Fund <u>Revolving Equipment Fund</u>
Cash Flows From Operating Activities:		
Receipts from customers	\$ 275,640	\$ -
Receipts from interfund services provided	-	84,639
Payments to suppliers	(210,831)	(31,781)
Payments to employees	(58,120)	(21,338)
Net Cash Provided By Operating Activities	<u>6,689</u>	<u>31,520</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(149,653)	(19,844)
Proceeds from sale of capital assets	-	27,890
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(149,653)</u>	<u>8,046</u>
Cash Flows From Investing Activities:		
Interest received on investments	<u>30,250</u>	<u>821</u>
Net Increase (Decrease) in Cash and Investments	(112,714)	40,387
Cash and Investments - July 1	<u>926,611</u>	<u>153,345</u>
Cash and Investments - June 30	<u>\$ 813,897</u>	<u>\$ 193,732</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating income	\$ 48,987	\$ (21,014)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	65,967	51,251
Change in assets and liabilities:		
Receivables	(14,150)	-
Accounts payable	(96,365)	1,283
Accrued and other liabilities	2,250	-
Net Cash Provided By Operating Activities	<u>\$ 6,689</u>	<u>\$ 31,520</u>

See Notes to Financial Statements

City of Fennville, Michigan  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2005

	<u>Agency Fund</u>
ASSETS	
Cash and investments	<u>\$     27,467</u>
LIABILITIES	
Due to Fennville Area Ambulance	\$     25,645
Due to other governments	<u>         1,822</u>
Total Liabilities	<u>\$     27,467</u>

City of Fennville, Michigan  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2005

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Fennville conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Fennville:

**A. Reporting Entity**

The City of Fennville is governed by an elected mayor and six-member council. The accompanying financial statements present the city and its component units, entities for which the city is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the city's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Blended Component Unit.** The city has no blended component units.

**Discretely Presented Component Unit.** The Fennville Downtown Development Authority, an entity legally separate from the City, is governed by a nine-member board appointed by the City Council. The Authority is fiscally dependent on the City because tax rates for the Downtown Development Authority district and bonded debt must be approved by the City Council. The Authority is presented as a governmental fund type. Separate financial statements for the Downtown Development Authority are not prepared. The Authority's financial activity is as reflected in these accompanying financial statements.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes (state shared revenues) collected and held by the State at year end on behalf of the city and paid to the city at the end of the following August are recognized as revenue in the year received. Such amounts are not normally received within 60 days of the end of the current fiscal year and are budgeted for use by the city in the year received. Other revenue is recorded when received.

The city reports the following major governmental funds:

*General Fund* - The General Fund is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major and Local Street Funds* - The Major Street and Local Street Funds account for the resources of state gas and weight taxes that are restricted for use on major and local streets. They also account for monies received from special taxes levied for street improvement purposes and for monies received from General Fund contributions.

The city reports the following major proprietary funds:

*Water and Sewage Disposal Systems Fund* - This fund is used to account for the sale of water and treatment of wastewater to the residents of the City of Fennville.

Additionally, the city reports the following fund types:

#### **Governmental Funds**

*Permanent Fund* - The Permanent Fund is used to record the activity of the Cemetery Trust which provides funds for the perpetual care of cemetery lots.

#### **Proprietary Funds**

*Internal Service Fund* - The Internal Service Fund accounts for the rental of machinery and equipment to other departments, and related costs.

#### **Fiduciary Funds (Not included in government-wide statements)**

*Agency Funds* - Agency Funds account for assets held by the city in a purely custodial capacity. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The city has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of the inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water and sewer functions and various other functions of the city. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewage disposal systems fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities, and Net Assets or Equity**

##### *1. Bank Deposits and Investments.*

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities. Exceptions to the pooled cash arrangement are the Current Tax Collection Fund cash account and the investments in the Cemetery Perpetual Care Fund.

For the purposes of the statement of cash flows, the proprietary fund types consider all transactions within the citywide cash management pool to be cash and cash equivalents. The cash management pool is used essentially as a demand deposit account and is treated the same as any other demand deposit account.

Investments are recorded at fair value. Interest is accrued and earnings in the pooled cash accounts are allocated quarterly to each fund based upon monthly balances of cash and investments.

##### *2. Receivables and Payables.*

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The property tax receivable allowance is equal to 100 percent of the outstanding property taxes. No allowance for uncollectible accounts is considered for other receivables.

##### *3. Inventories and Prepaid Items.*

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. *Capital Assets.*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-40
Land improvements	5-10
Machinery and equipment	5-15
Office furniture and equipment	5-20
Vehicles	3-25
Roads and sidewalks	15-25
Water and sewer systems	10-50

#### 5. *Compensated Absences.*

It is the city's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. It is the city's policy to pay 50% of accumulated sick pay to employees upon voluntary termination. If material, all vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations at year-end.

#### 6. *Long-Term Obligations.*

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. The City has no long-term obligations.

#### 7. *Fund Equity.*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **E. Property Taxes**

Property taxes are levied on each July 1 (lien date and due date) on the taxable valuation of property as of the preceding December 31. Real and personal property taxes are collected without additional charge from a period of 45 days from the date the bills are due. After that period of time, three percent penalty and interest at one percent per month are added to all unpaid taxes. The city continues to collect taxes until March 1, at which time the delinquent real property taxes are returned to the county for collection. The county's policy has been to pay the city for all delinquent real property taxes returned. The city continues to collect delinquent personal property taxes.

The city's 2004 ad valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of this levy are budgeted and made available for the financing of operations.

The 2004 taxable valuation of the city totaled \$21,579,466, on which ad valorem taxes levied consisted of 12.9232 mills for operating purposes. This resulted in \$243,203 (after reduction of \$35,670 for taxes captured by the DDA) for operating purposes. This amount is recognized in the General Fund as tax revenue.

## **F. Use of Estimates**

The preparation of financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**State Construction Code Act** – The city oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The city contracts these inspection services to Michigan Township Services, an entity independent from the city. Michigan Township Services collects fees for these services directly from the inspection applicant. Accordingly, no revenue or expenses are recorded in the city's financial statements.

## **NOTE 3. DETAILED NOTES ON ALL FUNDS**

### **A. Deposits and Investments**

*Michigan Compiled Laws, Section 129.91*, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The governing body has designated several banks for the deposit of city funds. The investment policy adopted by the city in accordance with Public Act 196 of 1997 has authorized investment in all of the State statutory authority as listed above.

The city's deposits and investment policy are in accordance with statutory authority.

At year-end, the city's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total	Component Unit
Cash and investments	\$ 1,047,236	\$ 813,897	\$ 27,467	\$ 1,888,600	\$ 115,137

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 1,368,477	\$ 115,137
Investments in securities and money market accounts	520,123	-
Total	\$ 1,888,600	\$ 115,137

### Deposits

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned. The city does not have a deposit policy for custodial credit risk. At year end the bank balance of the city's deposits was \$1,484,878 of which \$900,000 was covered by federal depository insurance and \$584,878 was exposed to custodial credit risk because it was uninsured and uncollateralized. The component unit's entire bank balance of \$115,137 was uninsured and uncollateralized. The city believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the city evaluates each financial institution with which it deposits city funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Investments

The city chooses to disclose its investments by utilizing the specific identification method. As of June 30, 2005 the city had the following investments.

Investment	Maturities	Fair Value
US Treasury note	11-30-05	\$ 248,545
Money market accounts	N/A	271,578
Total		\$ 520,123

*Interest rate risk.* Except as limited by state law as listed in the above list of authorized investments the city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The city has no investment policy that limits its investment choices beyond those required by state law. At year end the city had \$271,578 in permissible money market funds that are not separately rated.

*Custodial Credit Risk-Investments.* For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the city will not be able to recover the value of its investments that are in the possession of the outside party. The city has not adopted a policy for investment custodial credit risk. As of June 30, 2005, the city's \$248,545 in investments in US Treasury Notes was held by a third party in the city's name. The city's investments in money market accounts totaling \$271,578 are not subject to risk categorization.

*Concentration of Credit Risk.* State law does not limit and the city has not adopted a formal policy on the amount the city may invest in any one issuer. All investments held by the city at June 30, 2005 are either guaranteed by the US government or are in money market accounts.

## B. Receivables

Receivables as of year-end for the city's individual major funds, and non-major funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Water and Sewage Disposal</u>	<u>Total</u>
Receivables:					
Accounts	\$ -	\$ -	\$ -	\$ 71,516	\$ 71,516
Intergovernmental	<u>19,787</u>	<u>13,398</u>	<u>3,787</u>	<u>-</u>	<u>36,972</u>
Gross receivables	19,787	13,398	3,787	71,516	108,488
Allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Total Receivables	<u>\$ 19,787</u>	<u>\$ 13,398</u>	<u>\$ 3,787</u>	<u>\$ 71,516</u>	<u>\$ 108,488</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	<u>\$ 2,542</u>	<u>\$ -</u>

## C. Capital Assets

Capital asset activity of the primary government for the current year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Completed Construction</b>	<b>Ending Balance</b>
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 86,206	\$ -	\$ -	\$ -	\$ 86,206
<b>Capital Assets Being Depreciated</b>					
Building and improvements	530,084	-	-	-	530,084
Land improvements	73,683	-	-	-	73,683
Machinery and equipment	24,200	-	-	-	24,200
Office furniture and equipment	27,502	-	-	-	27,502
Equipment-Revolving Equipment	314,089	-	(51,400)	-	262,689
Vehicles-Revolving Equipment	269,738	-	(49,086)	-	220,652
Office furniture and equipment					
- Revolving Equipment	31,783	19,844	-	-	51,627
Infrastructure	24,905	-	-	-	24,905
<b>Subtotal</b>	<b>1,295,984</b>	<b>19,844</b>	<b>(100,486)</b>	<b>-</b>	<b>1,215,342</b>
<b>Less Accumulated Depreciation for</b>					
Buildings and improvements	(277,643)	(13,640)	-	-	(291,283)
Land improvements	(29,306)	(4,912)	-	-	(34,218)
Machinery and equipment	(9,593)	(1,920)	-	-	(11,513)
Office furniture and equipment	(2,438)	(2,839)	-	-	(5,277)
Equipment-Revolving Equipment	(277,669)	(17,760)	51,400	-	(244,029)
Vehicles-Revolving Equipment	(215,832)	(29,217)	42,657	-	(202,392)
Office furniture and equipment					
- Revolving Equipment	(27,423)	(4,274)	-	-	(31,697)
Infrastructure	(1,323)	(1,660)	-	-	(2,983)
<b>Subtotal</b>	<b>(841,227)</b>	<b>(76,222)</b>	<b>94,057</b>	<b>-</b>	<b>(823,392)</b>
<b>Net Capital Assets Being Depreciated</b>	<b>454,757</b>	<b>(56,378)</b>	<b>(6,429)</b>	<b>-</b>	<b>391,950</b>
<b>Governmental Activities Total</b>					
Capital Assets - Net of Depreciation	\$ 540,963	\$ (56,378)	\$ (6,429)	\$ -	\$ 478,156

<b>Business-Type Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated					
Land	\$ 16,400	\$ -	\$ -	\$ -	\$ 16,400
Recra-Lan acquisition	300,000	-	-	-	300,000
Construction in progress	<u>127,307</u>	<u>68,678</u>	<u>-</u>	<u>(127,307)</u>	<u>68,678</u>
Subtotal	<u>443,707</u>	<u>68,678</u>	<u>-</u>	<u>(127,307)</u>	<u>385,078</u>
Capital Assets Being Depreciated					
Water systems	1,355,122	208,282	-	-	1,563,404
Sewage disposal systems	<u>775,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>775,245</u>
Subtotal	<u>2,130,367</u>	<u>208,282</u>	<u>-</u>	<u>-</u>	<u>2,338,649</u>
Less Accumulated Depreciation for					
Water systems	(670,507)	(43,905)	-	-	(714,412)
Sewage disposal systems	<u>(482,001)</u>	<u>(22,062)</u>	<u>-</u>	<u>-</u>	<u>(504,063)</u>
Subtotal	<u>(1,152,508)</u>	<u>(65,967)</u>	<u>-</u>	<u>-</u>	<u>(1,218,475)</u>
Net Capital Assets Being Depreciated	<u>977,859</u>	<u>142,315</u>	<u>-</u>	<u>-</u>	<u>1,120,174</u>
Business Type Activities Total					
Capital Assets - Net of Depreciation	<u>\$ 1,421,566</u>	<u>\$ 210,993</u>	<u>\$ -</u>	<u>\$ (127,307)</u>	<u>\$ 1,505,252</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	\$ 10,143
General government	4,740
Public safety	1,660
Public works	8,428
Recreation and culture	
Internal service fund depreciation is charged to the various functions based on their usage of the assets	<u>51,251</u>
Total Governmental Activities	<u>\$ 76,222</u>
Business-Type Activities	
Water and sewage disposal	<u>\$ 65,967</u>

*Construction Commitments*-The city had no construction projects or commitments as of June 30, 2005.

Capital asset activity of the Downtown Development Authority for the current year was as follows:

<b>Component Unit - Downtown Development Authority</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated					
Land	\$ 78,067	\$ -	\$ -	\$ -	\$ 78,067
Capital Assets Being Depreciated					
Buildings and improvements	112,000	-	-	-	112,000
Less accumulated depreciation	(22,400)	(2,800)	-	-	(25,200)
Net Capital Assets Being Depreciated	89,600	(2,800)	-	-	86,800
Component Unit Total Capital Assets - Net of Depreciation	\$ 167,667	\$ (2,800)	\$ -	\$ -	\$ 164,867

#### **D. Interfund Receivables, Payables and Transfers**

At June 30, 2005, there were no interfund balances. Interfund transfers totaling \$2,300 were made from the Cemetery Perpetual Care Fund (Permanent Fund) to the General Fund during the year for operating purposes.

#### **E. Operating Lease**

The City leases a copy machine under a non-cancelable operating lease agreement expiring September 30, 2008. Lease payments under this operating lease were \$3,923 for the year ended June 30, 2005. Future minimum lease payments for this operating lease are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2006	\$ 3,923
2007	3,923
2008	3,923
2009	981
Total	<u>\$ 12,750</u>

#### **F. Long-Term Debt**

The city has no long-term debt at June 30, 2005.

#### **G. Restricted Assets**

The city has no restricted assets at June 30, 2005.

#### **NOTE 4. OTHER INFORMATION**

##### **A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries full multi-peril insurance coverage underwritten by the Michigan Municipal Liability and Property Pool. The City is fully insured for workers compensation claims by coverage underwritten by the Michigan Municipal Workers Compensation Fund. Risk control techniques include the use of third party claims review, third party loss control services, and employee education and training programs. Settled claims for insurance have never exceeded the amount of coverage. There was no reduction of coverages obtained through insurance during the past year.

The Michigan Municipal League risk pool operates as a common risk-sharing program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

##### **B. Deferred Compensation Plan**

The city offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of the plan were held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted for any other use. The Administrators are the agents of the employer for the purpose of providing direction to the custodian of the custodial accounts from time to time for the investment of the funds held in the account, transfer of the assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the city's financial statements.

##### **C. Pension**

The City contributes to simplified employee pension (SEP) accounts covering all full-time employees. Contributions for the year were \$9,598. The City contributes an amount equal to 5% of covered payroll.

Required  
Supplementary Information

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 280,700	\$ 280,700	\$ 246,008	\$ (34,692)
Licenses and permits	5,000	5,000	4,128	(872)
State shared revenues	153,942	153,942	152,903	(1,039)
Charges for services	23,000	23,000	22,156	(844)
Fines and forfeitures	3,500	3,500	456	(3,044)
Interest	7,500	7,500	16,228	8,728
Rents	1,400	1,400	1,440	40
Other	200	200	13,102	12,902
Total Revenues	<u>475,242</u>	<u>475,242</u>	<u>456,421</u>	<u>(18,821)</u>
Expenditures:				
Current:				
General Government:				
Governing body	25,059	25,059	26,178	(1,119)
Superintendent	20,500	20,500	20,226	274
Elections	4,750	6,250	4,221	2,029
Assessor	4,050	4,050	4,000	50
Clerk	22,300	23,077	20,809	2,268
Board of review	500	500	574	(74)
Treasurer	33,000	33,000	31,503	1,497
City Hall and Grounds	65,200	74,692	69,046	5,646
Cemetery	18,960	23,100	20,725	2,375
Total General Government	<u>194,319</u>	<u>210,228</u>	<u>197,282</u>	<u>12,946</u>
Public Safety:				
Police patrol	74,786	74,786	77,613	(2,827)
Crossing guard	3,300	3,300	3,132	168
Fire services	46,665	46,665	44,995	1,670
Emergency services	10,000	10,000	9,571	429
Total Public Safety	<u>134,751</u>	<u>134,751</u>	<u>135,311</u>	<u>(560)</u>

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final Budget
Public Works:				
Sidewalks	7,615	7,670	7,186	484
Street lighting	17,000	17,000	16,132	868
City clean-up	6,720	6,720	4,742	1,978
Total Public Works	<u>31,335</u>	<u>31,390</u>	<u>28,060</u>	<u>3,330</u>
Community and Economic Development:				
Planning commission	<u>3,600</u>	<u>4,600</u>	<u>2,692</u>	<u>1,908</u>
Recreation and Culture:				
Parks	22,125	22,125	17,887	4,238
Library	3,300	-	-	-
Total Recreation and Culture	<u>25,425</u>	<u>22,125</u>	<u>17,887</u>	<u>4,238</u>
Insurance, Bonds, and Fringes:				
Employee insurances	26,250	39,028	33,452	5,576
Employee retirement	5,500	5,500	5,182	318
Other	9,630	9,630	7,367	2,263
Total Insurance, Bonds, and Fringes	<u>41,380</u>	<u>54,158</u>	<u>46,001</u>	<u>8,157</u>
Total Expenditures	<u>430,810</u>	<u>457,252</u>	<u>427,233</u>	<u>30,019</u>
Excess Of Revenues Over (Under) Expenditures	44,432	17,990	29,188	11,198
Other Financing Sources (Uses):				
Operating transfers in	<u>2,300</u>	<u>-</u>	<u>2,300</u>	<u>2,300</u>
Net Change in Fund Balances	46,732	17,990	31,488	13,498
Fund Balances - July 1	<u>259,765</u>	<u>259,765</u>	<u>259,765</u>	<u>-</u>
Fund Balances - June 30	<u>\$ 306,497</u>	<u>\$ 277,755</u>	<u>\$ 291,253</u>	<u>\$ 13,498</u>

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND  
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final
				Budget
Revenues:				
State shared revenues	\$ 75,100	\$ 75,100	\$ 81,901	\$ 6,801
Interest	650	650	1,869	1,219
Total Revenues	<u>75,750</u>	<u>75,750</u>	<u>83,770</u>	<u>8,020</u>
Expenditures:				
Current:				
Public Works:				
Surface maintenance	25,625	25,625	15,323	10,302
Traffic services	1,945	1,945	3,107	(1,162)
Winter maintenance	13,690	13,690	8,408	5,282
Superintendent	3,420	3,420	2,889	531
Administration	<u>2,150</u>	<u>2,150</u>	<u>1,545</u>	<u>605</u>
Total Public Works	<u>46,830</u>	<u>46,830</u>	<u>31,272</u>	<u>15,558</u>
Insurance, bonds, and fringes:				
Employee insurances	2,511	3,316	2,918	398
Employee retirement	<u>600</u>	<u>600</u>	<u>576</u>	<u>24</u>
Total Insurance, bonds, and fringes	<u>3,111</u>	<u>3,916</u>	<u>3,494</u>	<u>422</u>
Total Expenditures	<u>49,941</u>	<u>50,746</u>	<u>34,766</u>	<u>15,980</u>
Net Change in Fund Balances	25,809	25,004	49,004	24,000
Fund Balances - July 1	<u>186,592</u>	<u>186,592</u>	<u>186,592</u>	<u>-</u>
Fund Balances - June 30	<u>\$ 212,401</u>	<u>\$ 211,596</u>	<u>\$ 235,596</u>	<u>\$ 24,000</u>

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND  
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final
				Budget
Revenues:				
State shared revenues	\$ 21,630	\$ 21,630	\$ 23,888	\$ 2,258
Local unit contributions	20,000	20,000	21,608	1,608
Interest	75	75	783	708
Total Revenues	41,705	41,705	46,279	4,574
Expenditures:				
Current:				
Public Works:				
Surface maintenance	14,650	14,650	19,386	(4,736)
Traffic services	2,453	2,453	1,554	899
Winter maintenance	12,180	12,180	8,328	3,852
Superintendent	3,250	3,250	2,890	360
Administration	1,040	1,040	1,352	(312)
Total Public Works	33,573	33,573	33,510	63
Insurance, bonds, and fringes:				
Employee insurances	1,665	2,519	1,996	523
Employee retirement	400	400	384	16
Total Insurance, bonds, and fringes	2,065	2,919	2,380	539
Total Expenditures	35,638	36,492	35,890	602
Net Change in Fund Balances	6,067	5,213	10,389	5,176
Fund Balances - July 1	72,611	72,611	72,611	-
Fund Balances - June 30	\$ 78,678	\$ 77,824	\$ 83,000	\$ 5,176

City of Fennville, Michigan  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2005

**NOTE - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Before June 30, the proposed budget is presented to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and activity. Budgetary control over expenditures is exercised by the City Council. Appropriated budgets are amended by a majority vote of the City Council. The legal level of budgetary control is the activity level. The City Council made several supplemental budgetary appropriations throughout the year.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**B. Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the city incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Budget Items	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund		
Governing body	\$ 25,059	\$ 26,178
Board of review	500	574
Police patrol	74,786	77,613
Major Street Fund		
Traffic services	1,945	3,107
Local street Fund		
Surface maintenance	14,650	19,386
Administration	1,040	1,352

## Supplemental Data

City of Fennville, Michigan  
BALANCE SHEET  
DISCRETELY PRESENTED COMPONENT UNIT  
June 30, 2005

	<u>Downtown Development Authority</u>
ASSETS	
Current Assets:	
Cash and investments	<u>\$ 115,137</u>
LIABILITIES	
Accounts payable	2,205
FUND BALANCE	
Unreserved	<u>112,932</u>
Total Net Assets	<u>\$ 115,137</u>
 Total Component Unit Fund Balance	 \$ 112,932
Amount reported for the component unit in the statement of net assets are different because:	
Capital assets used in the component unit's activities are not financial resources and are not reported in the funds:	
Capital assets	<u>164,867</u>
Net Assets of the Component Unit	<u>\$ 277,799</u>

City of Fennville, Michigan  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES FUND BALANCE  
DISCRETELY PRESENTED COMPONENT UNIT  
Year Ended June 30, 2005

	<u>Downtown Development Authority</u>
Revenues	
Taxes	\$ 54,937
Rents	<u>7,800</u>
Total Revenues	62,737
Expenditures	
Current	
Public Works	<u>60,041</u>
Net Change in Fund Balance	2,696
Fund Balance - July 1	<u>110,236</u>
Fund Balance - June 30	<u>\$ 112,932</u>
Net change is fund balance - Component Unit	\$ 2,696
Amounts reported for the component unit's activities in the statement of activities are different because:	
The Component Unit reports capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Current year capital outlays capitalized - capital assets	-
Current year depreciation expense on capitalized assets	<u>(2,800)</u>
Change in net assets of the Component Unit	<u>\$ (104)</u>